



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

<b>Bill #</b>	SB0534
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<b>Title:</b>	Redirect state trust land assets
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<b>Primary Sponsor:</b>	Wanzenried, David E
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<b>Status:</b>	As Introduced
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|---|---|---|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns                         |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input checked="" type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund (01)	\$0	\$267,606	\$1,053,341	\$2,583,563
Guarantee Account (02)	\$0	(\$267,606)	(\$1,053,341)	(\$2,583,563)
SSR Timber Sale Account (02)	\$0	\$75,519	\$103,127	\$135,769
SSR CS Land Asset Account (02)	\$0	\$5,000,000	\$10,000,000	\$15,000,000
CS Permanent Fund Transfer (09)	\$0	\$5,000,000	\$10,000,000	\$15,000,000
<b>Revenue:</b>				
General Fund (01)	\$0	(\$23,233)	(\$72,732)	(\$151,791)
Guarantee Account (02)	\$0	(\$267,606)	(\$1,053,341)	(\$2,583,563)
SSR Timber Sale Account (02)	\$0	\$75,519	\$103,127	\$135,769
Technology Acquisition Acct (02)	\$0	(\$46,610)	\$99,680	\$801,103
CS Perm Fund (09)	\$0	(\$14,085)	(\$55,439)	(\$135,977)
SSR CS Land Asset Account (02)	\$0	\$5,000,000	\$10,000,000	\$15,000,000
University Mill Levy (02)	\$0	(\$301)	(\$903)	(\$1,806)
<b>Net Impact-General Fund Balanc</b>	<u>\$0</u>	<u>(\$290,839)</u>	<u>(\$1,126,073)</u>	<u>(\$2,735,354)</u>

#### Description of fiscal impact:

This bill allows the board of land commissioners to exchange up to \$100 million of the common school permanent fund cash assets by purchasing fee simple interests in real property.

## FISCAL ANALYSIS

### Assumptions:

1. For the purposes of this fiscal note, it is assumed that all lands purchased are forested and legally accessible.
2. The Common Schools trust will be the sole beneficiary associated with the purchase of these lands.
3. The land acquisitions are shown as capital expenditures in each year of the biennium, except in the first year (FY 2008) due to the time needed to identify and finalize purchase plans.
4. The purchase price of the land will depend on the level of participation or contribution of outside partners. Therefore, approximately 80% of the lands purchased would be at \$300/acre and 20% at \$1000/acre.
5. No land would be purchased in FY 2008, 14,333 acres would be purchased in FY 2009 (13,333 ac @ \$300/ac + 1000 ac @ \$1,000/ac), 28,667 acres would be purchased in FY 2010 (26,667 ac @ \$300/ac + 2000 ac @ \$1,000/ac), and 43,000 acres would be purchased in FY 2011 (40,000 ac @ \$300/ac + 3000 ac @ \$1,000/ac). Approximately 86,000 acres would be purchased with the \$30 million.
6. Land acquisition costs are estimated at \$2 per acre for FY 2009, \$2.05 for FY 2010, and \$2.10 for FY 2011. These land acquisition costs would be paid from the Timber Sale Account (77-1-613, MCA) which is funded from timber revenue.
7. The land purchased will be combined with all other forested state trust lands and managed under the State Forest Land Management Plan (SFLMP) and all applicable laws and administrative rules (ARM 36.11.401 – 450).
8. There are currently 479,332 classified forest state trust land acres.
9. The lands purchased will have a similar productive capacity and proportion of productive and non-productive lands as existing forested state trust lands in the Northwest Land Office (NWLO).
10. The addition of these lands will result in an immediate and proportional increase in the sustained yield consistent with the most recent sustained yield study. The total acres purchased through FY 2011 will be 86,000 acres, which results in a proportional increase in the annual sustained yield of approximately 9.5 million board feet (MMBF). (86,000 ac x 184.4 BF/ac/yr x .60 harvest of growth = 9.52 MMBF/yr)
11. The 3-year average stumpage value is \$230/MBF. Therefore, the additional annual sustained yield volume of 9.5 MMBF from the additional 86,000 acres would have an estimated value of \$2,185,000 annually (9,500 MBF x \$230/MBF = \$2,185,000) and will occur in FY 2012.
12. The additional revenue from the increase in timber land will not be realized in FY 2009 because the timeframe between selling and actually harvesting the additional volume is around 12 months.
13. The revenue will increase yearly starting in FY 2010 to \$2,185,000 in FY 2012 based on the acreage purchased in the previous year.
14. Additional resources (FTE & operating expenses) will be needed to manage the additional acres and achieve the increased sustained yield. One additional FTE with associated operating expenses are being requested. Personal services expenses for the 1 new FTE are \$42,278 per year with annual operating expenses of \$1,000 per year, except for an additional \$3,575 in the first year to purchase office and computer equipment.
15. Common School timber revenue from the first 18 MMBF is distributed 95% to the guarantee account and 5% to the permanent fund. The revenue from any timber produced after 18 MMBF is distributed to the technology acquisition account. Projections of timber revenue through FY 2011 show more than 18 MMBF of timber produced each year. The additional timber revenue under SB 534 will increase the amount of revenue that will be deposited in the technology acquisition account.
16. The following table shows the projected expenditures on common school timber land under current law and under the proposed law. The proposed law will increase the amount of expenditures and it will change the allocation of timber harvest costs between BASE Aid finding and the technology acquisition

account. The following table also shows the additional revenue from SB 534 and the net impact of the timber revenue.

<b>SB 534 Impact on Common School Trust Timber Revenue</b>					
	<b>Allocation of Costs</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Current Expenditures		\$3,264,000	\$3,345,600	\$3,429,240	\$3,514,971
New Expenditures		\$75,519	\$103,127	\$135,769	\$167,006
<b>Total</b>		<b>\$3,339,519</b>	<b>\$3,448,727</b>	<b>\$3,565,009</b>	<b>\$3,681,977</b>
<b>Current Law</b>					
Expenses for Under 18 MMBF	38.28%	\$1,249,459	\$1,280,696	\$1,312,713	\$1,345,531
Expenses for Over 18 MMBF	61.72%	\$2,014,541	\$2,064,904	\$2,116,527	\$2,169,440
<b>HB 534</b>					
In FY 2009					
Expenses for Under 18 MMBF	38.28%	\$1,278,368			
Expenses for Over 18 MMBF	61.72%	\$2,061,151			
In FY 2010 - FY 2012					
Expenses for Under 18 MMBF	32.46%		\$1,119,344	\$1,157,085	\$1,195,049
Expenses for Over 18 MMBF	52.33%		\$1,804,752	\$1,865,604	\$1,926,814
New Expenses for Over 18 MMBF	15.21%		\$524,631	\$542,320	\$560,113
<b>Difference</b>					
Expenses for Under 18 MMBF		\$28,909	(\$161,352)	(\$155,628)	(\$150,482)
Expenses for Over 18 MMBF		\$46,610	\$264,479	\$291,397	\$317,487
<b>Additional Revenue from SB 534</b>					
Under 18 MMBF (BASE Aid)		\$0	\$0	\$0	\$0
Over 18 MMBF (Tech Acquisition)		\$0	\$364,158	\$1,092,500	\$2,185,000
<b>Net Impact to Fund from Purchased</b>					
Under 18 MMBF (BASE Aid)		<b>(\$28,909)</b>	<b>\$161,352</b>	<b>\$155,628</b>	<b>\$150,482</b>
Over 18 MMBF (Tech Acquisition)		<b>(\$46,610)</b>	<b>\$99,680</b>	<b>\$801,103</b>	<b>\$1,867,513</b>

17. As of 1/31/07, the cash balance in the common school permanent fund was \$396,722,726.
18. Pursuant to Section 2 (5) of SB 534, common school permanent fund cash will be deposited into the interest bearing common school asset management account (17-2-102) to purchase land.
19. It is assumed that the common school asset management account will have the same interest rates as the common school permanent fund. The interest rate for FY 2009 is projected to be 5.63% in HJR 2 and OBPP projects the permanent fund interest rate will be 5.54% in FY 2010 and 5.43 % in FY 2011.
20. The decrease in interest revenue to the guarantee account is estimated to be \$267,606 in FY 2009, \$1,053,341 in FY 2010, and \$2,583,563 in FY 2011. The decrease in interest revenue deposited in the permanent fund is \$14,085 in FY 2009, \$55439 in FY 2010, and \$135,977 in FY 2011.
21. The interest earning from the common school permanent fund are distributed 95% to the common school guarantee account and 5% back to the permanent fund. The interest earnings in the common school asset management account will be distributed in the same way. The money spent to purchase land will no longer earn interest, and the common school guarantee account receives less revenue.
22. The following table shows the net impact of SB 534 on the common school permanent fund, the common school guarantee account, the technology acquisition account, and the general fund.

<b>SB 534 Impact on Common School Funding with Impacts from Interest</b>			
	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Common School Permanent Fund</b>			
Land Purchase	\$5,000,000	\$10,000,000	\$15,000,000
Decrease in Interest Earnings (5%)	(\$14,085)	(\$55,439)	(\$135,977)
<b>Net Permanent Fund Impact</b>	<b>\$4,985,916</b>	<b>\$9,944,561</b>	<b>\$14,864,023</b>
<b>Common School Guarantee Account</b>			
Decrease in Interest Earnings (95%)	(\$267,606)	(\$1,053,341)	(\$2,583,563)
Timber Net Revenue	(\$28,909)	\$161,352	\$155,628
Reduced Expenditures for BASE Aid	\$296,514	\$891,990	\$2,427,935
<b>Net Guarantee Acct Impact</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Technology Acquisition Account</b>			
Tech Acquisition Net Revenue	(\$46,610)	\$99,680	\$801,103
Change in Local Assistance to Schools	\$46,610	(\$99,680)	(\$801,103)
<b>Net Technology Acquisition Impact</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

23. The state does not pay property tax on land in the common school trust. The purchase of timberland under this bill will yield a taxable value decrease in class 10 timberland property of \$14.333 million (14,333 acres x \$1000) in FY 2009, \$28.677 million (28,677 acres x \$1000) in FY 2010, and \$43.000 million (43,000 acres x \$1000) in FY 2011. The class 10 property tax rate is 0.34%.
24. As a result of this bill, there will be a 95.54 mill general fund revenue loss of \$4,793 (\$14.333 million x 0.0034 x 0.09554) in FY 2009, \$14,379 (\$28.677 million x 0.0034 x 0.09554) in FY 2010, and \$28,758 (\$43.000 million x 0.0034 x 0.09554).
25. The counties where this class 10 timberland is purchased will have a taxable value decrease in this type of property and therefore receive less revenue. The average statewide local mill levy grew by approximately 4.35% from calendar year 2000 to calendar year 2006 and this growth is assumed to continue into the future. The average statewide local mill levy in FY 2007 is 425.31. The average statewide local mill levy will be 463.12 (425.31 x 1.0435 x 1.0435) in FY 2009, 483.27 (463.12 x 1.0435) in FY 2010, and 504.29 (483.27 x 1.0435) in FY 2011.
26. As a result of this bill, there will be a local property tax revenue loss of \$23,233 ((\$14.333 million x 0.0034 x 0.46312) in FY 2009, \$72,732 (\$28.677 million x 0.0034 x 0.48327) in FY 2010, and \$151,791 (\$43.000 million x 0.0034 x 0.50429). There will be some replacement of these revenues through the guarantee tax BASE Aid for schools, but these amounts will be small.
27. As a result of this bill, there will be a 6 mill university special revenue loss of \$301 ((\$14.333 million x 0.0034 x 0.006) in FY 2009, \$903 (\$28.677 x 0.0034 x 0.006) in FY 2010, and \$1,806 (\$43.000 x 0.0034 x 0.006).
28. The total impact of HB 534 on property tax is shown in the following table.

<b>HB 534 Impact on Property Tax</b>			
	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
General Fund	(\$4,793)	(\$14,379)	(\$28,758)
Local Revenue	(\$23,233)	(\$72,732)	(\$151,791)
University Mill Levy	(\$301)	(\$903)	(\$1,806)
<b>Total</b>	<b>(\$23,233)</b>	<b>(\$72,732)</b>	<b>(\$151,791)</b>

	<b><u>FY 2008 Difference</u></b>	<b><u>FY 2009 Difference</u></b>	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b>FTE</b>	0.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Local Assistance (02)	\$0	\$46,610	(\$99,680)	(\$801,103)
Land Purchases	\$0	\$5,000,000	\$10,000,000	\$15,000,000
Personal Services	\$0	\$42,278	\$43,335	\$44,418
Operations (FTE)	\$0	\$4,575	\$1,025	\$1,051
Operations-Land Acquisitions	\$0	\$28,666	\$58,767	\$90,300
Transfers	\$0	\$5,000,000	\$10,000,000	\$15,000,000
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$10,075,519</b>	<b>\$20,103,127</b>	<b>\$30,135,769</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$267,606	\$1,053,341	\$2,583,563
Guarantee Account (02)	\$0	(\$267,606)	(\$1,053,341)	(\$2,583,563)
SSR Timber Sale Account (02)	\$0	\$75,519	\$103,127	\$135,769
SSR CS Land Asset Account (02)	\$0	\$5,000,000	\$10,000,000	\$15,000,000
CS Permanent Fund Transfer (09)	\$0	\$5,000,000	\$10,000,000	\$15,000,000
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$10,075,519</b>	<b>\$20,103,127</b>	<b>\$30,135,769</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	(\$23,233)	(\$72,732)	(\$151,791)
Guarantee Account (02)	\$0	(\$267,606)	(\$1,053,341)	(\$2,583,563)
SSR Timber Sale Account (02)	\$0	\$75,519	\$103,127	\$135,769
Technology Acquisition Acct (02)	\$0	(\$46,610)	\$99,680	\$801,103
CS Perm Fund (09)	\$0	(\$14,085)	(\$55,439)	(\$135,977)
SSR CS Land Asset Account (02)	\$0	\$5,000,000	\$10,000,000	\$15,000,000
University Mill Levy (02)	\$0	(\$301)	(\$903)	(\$1,806)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$4,723,684</b>	<b>\$9,020,392</b>	<b>\$13,063,735</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	(\$290,839)	(\$1,126,073)	(\$2,735,354)
Guarantee Account (02)	\$0	\$0	\$0	\$0
SSR Timber Sale Account (02)	\$0	\$0	\$0	\$0
Technology Acquisition Acct (02)	\$0	(\$46,610)	\$99,680	\$801,103
CS Permanent Fund (09)	\$0	(\$5,014,085)	(\$10,055,439)	(\$15,135,977)
CS Land Asset Account (02)	\$0	\$0	\$0	\$0
University Mill Levy (02)	\$0	(\$301)	(\$903)	(\$1,806)

**Long Range Impacts**

1. Over the past three years, forested land in Western Montana has been appreciating annually at a rate of 4% to 12%, based on the desirability of the land. This appreciation has not been included in the fiscal note because the land will not be sold.
2. The loss in interest revenue to the trust is greater than the increase in timber revenue from the purchased land through out the years in the fiscal note. The net present value of the land purchases must be greater than the net present value of the interest earnings from the permanent fund for this project to occur. The net present value of the land includes appreciation and net projected revenue.

**Effect on County or Other Local Revenues or Expenditures:**

1. As discussed in assumptions 25 and 26, there is local property tax revenue loss of \$4,793 (( $\$14.333 \text{ million} \times 0.0034 \times 0.46312$ ) in FY 2009,  $\$14,379$  ( $\$28.677 \text{ million} \times 0.0034 \times 0.48327$ ) in FY 2010, and  $\$28,758$  ( $\$43.000 \text{ million} \times 0.0034 \times 0.50429$ ) due to this bill.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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